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     INDEX '1MOBILITY, ABCD, BIOBUSINESS, BIOCOMMERCE, BIOTECHNO, CBNB, CEN,
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Moody's Investors' Service Reports have now been added to INVESTEXT. To review the terms and conditions associated with the use of the data from Moody's, enter HELP USAGETERMS at an arrow prompt (=>).

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ISSUE CLASS FIELDS (/INCL) CURRENT THROUGH: 1 May 2001 (20010501/PD)
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Instrumenta gives you unmatched insights into trends and developments in the analytical instruments and laboratory equitment market. Genomika provides you with all the latest information on the highly-fragmented global genomics and proteomics industry. Both publications are published 22 times a year. Enter HELP JOURNAL for more source information.

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FILE MATH
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AU Wrighton, Jo
SO Institutional Investor International Edition, (July 1998) Vol. 23, No. 7, pp. 25.
ISSN: 0192-5660.
PB Institutional Investor, Inc.
DT Newsletter
LA English
WC 2626

TX Schroders sold itself to pension funds as a low-risk manager. But no one likes an underachiever when stocks are roaring.

NOT LONG AGO SCHRODER INVESTMENT Management was on just about every pension fund manager's shortlist. Back then the London firm's marketing department was stretched so far that it had to seek volunteers among its fund managers to make client presentations. "All hands to the pump," recalls one former manager, who dutifully trekked off to Manchester to pitch a small company.

And the money came rolling in. Thanks to an admiring cadre of pension consultants advising U.K. and foreign companies, municipalities and other pension fund trustees, in 1997 alone Schroders garnered some $30 billion, more new business than any other U.K. pension fund manager. Last year's bounty brought its total assets under management to more than $170 billion (see chart, page 27).

[CHART OMITTED]

But has Schroders' marketing prowess been living off yesterday's performance? It certainly seems that way. Suddenly, the prudent investment qualities that seemed so apt in the mid-1990s -- clearly defined, low-risk balanced fund management and specialist equity managers making their investment choices from a list of recommended stocks -- appear horribly old-fashioned in the gogo, performance-driven era of the late '90s.

Instead of beating the market and staying a notch ahead of rivals, as it had for many years, Schroders has become a laggard -- at best lackluster -- in some key areas. By the end of the first quarter, Schroders U.T., the firm's $4.6 billion pooled fund for small-pension clients, had underperformed the median in eight of the previous 12 quarters. For the first quarter the pooled **fund ranked** 60th of 66 **funds**, with a **return** of 10.4 percent, against a **median** of 12.3 percent, according to performance measurers Combined Actuarial Performance Services (see table).

Last year was scarcely better: The fund ranked 59th of 72 funds, with a return of 9.1 percent. Part of the problem was that as a pooled fund, it had 20 percent of its portfolio invested in the more aggressive Schroder U.K. Enterprise Fund. After many years of outstanding returns, that fund

came up short last year, underperforming the 19 percent gain of the FTSE all-share index by 3 percent.

But these aren't Schroders' only problems. Performance in non-U.K., equities also floundered (made worse recently by an overweighting in Asian markets). And, perhaps most dangerous of all to Schroders' core business, its individual balanced funds for larger clients were producing only average returns, leaving it vulnerable to firms that offer index funds. Balanced funds, the most common form of fund in the U.K., give individual managers the discretion to invest in all asset classes (including fixed income) and geographic markets.

"If Schroders continues to play the low-risk game, it will become increasingly difficult to differentiate it from the indexers," says George Henshilwood, a senior partner at consulting firm Hymans Robertson. Says another leading U.K. pension fund consultant, "Clients are becoming concerned that Schroders isn't adding value."

That's not what any firm likes to hear, particularly Schroders, which has long prided itself on keeping clients happy. Former group managing director John Govett used to tell his staff, "You can have enough rope to hang yourselves, but not the client."

To be sure, Schroders' other big U.K. rivals -- Mercury Asset Management, PDFM and Gartmore Investment Management -- have not distinguished themselves recently either. But they never promised clients a smooth ride. Schroders, on the other hand, has long sold itself on its consistency. Lately, though, pension funds seem to want higher returns if they're going to pay for active management. And if they can't get the style they want from the Big Four U.K. managers, they can try either the index funds or U.S. firms such as Fidelity Institutional Asset Management and Capital International.

Schroders is running a real risk. Even though the firm continues to pick up new pension management mandates, the erosion of existing business is accelerating. Consultants report that clients are beginning to compare Schroders' fees to those charged by passive managers. A typical U.K. client will pay about 0.35 percent of its portfolio annually for active investment management, compared with only 0.05 percent or so for passive management. "Schroders' performance has been steady over the long term," says one client. "But I can get `steady' from an index manager."

The increased popularity of index management hasn't helped Schroders' case. "There's more understanding that by combining passive and active management, pension funds can increase and reduce risk in a measured way," says Nick Sykes, a senior consultant at William M. Mercer Ltd.

So far, dissatisfied clients have reduced rather than removed mandates from Schroders. In May Strathclyde Regional Council, for example, reduced its nearly $4 billion active mandate by half, putting the rest with an indexer. Similarly, the Environment Agency recently cut Schroders' mandate by $130 million, to about $540 million, as part of a restructuring of its fund to include 40 percent passive management.

"Having looked at the past performance of active managers, we felt that now was a good time to include a passive element in the portfolio," says Susan Timbrell, the Environment Agency's pension fund manager. In May consumer products giant Unilever relieved Schroders of more than $700 million in overseas equities.

Schroders, for its part, is wrestling to solve the deficiencies it believes to be responsible for the poor showing. But it's not making any wholesale changes in its investment style. Instead, it's opting to stick with its midsize stock strategy, not giving fund managers any more lee-way to take big bets to make up lost ground and holding parameters tight on the approved list of stocks.

The leadership has changed, however. Govett took early retirement this year at 54. His replacement as group managing director, asset management, and board member of the parent company, David Salisbury, 46, is actively talking to clients about performance -- in effect asking them to stay the course with Schroders. Salisbury, who is also the investment management firm's chairman, is well suited to the task. Competitors describe him as an astute businessman and problem-solver. "He can smooth ruffled feathers," says one.

"We are putting more emphasis on talking to clients, explaining our views on markets and our performance," Salisbury says. "When markets are volatile this is particularly important." Also playing more of a public role is Nicola Ralston, the managing director of Schroder Investment Management (UK), the pension fund and charity arm. She wields as much power in the City as Mercury Asset Management deputy chairman Carol Galley (Institutional Investor, October 1996), but is not as well known. Even some of the medium-size consulting firms say they rarely see her. "Nicola Ralston is almost invisible," says one. "More visibility can be helpful during the bad times."

It wouldn't be so bad if the firm had been more flexible in U.K. and other dynamic world markets, say consultants. They interpret Schroders' lack of a significant change in strategy as a fear of falling behind its three main U.K. competitors. As long as they were in the same slow boat versus the U.K. and, especially, the U.S. bull market, Schroders seemed unconcerned. The firm could have been more responsive to the bull market by allowing the equity managers of its U.K. balanced portfolios to take bigger bets. Instead, they were prohibited from holding positions in any one stock of more than 1.5 percent of its weighting in the FTSE all-share index.

"The asset allocation committee became paranoid about the performance of our competitors," says a former Schroders fund manager. "It spent a great deal of time studying the performance of other U.K. money managers, making sure we didn't deviate too much from the median." One U.K. consultant echoes the views of many, saying, "Schroders has fallen into the trap of thinking that underperformance (against competing firms) is a big business risk, and so they have started to take smaller and smaller investment decisions."

Size got in the way, too. Says one large U.K.-based client: "Schroders' outperformance has gradually been reduced year-on-year as the group has become bigger. It's harder to be [Illegible Text] in the markets." Consultants express the same concern. "I haven't short-listed Schroders since the end of 1996, because it's been shoveling on assets, and I'm concerned about the rate of growth," says one.

Schroders' investment style makes the problem particularly pressing. For balanced funds managers typically pick about 90 stocks from a recommended list of roughly 180. Moving in and out of big positions, therefore, can be difficult. "It must take Schroders between two and three weeks to get out

of a big stock," says one consultant, who adds that he has seen client records showing a string of sales dates for one stock that indicate just how long it took to sell across the entire client base.

The U.K. Enterprise Fund is an example of how size makes managing a specialist portfolio more challenging. Shortly after Schroders launched the unit trust in 1988, it had about $1.6 billion under management, and now it has more than $2.8 billion. The fund started with 30 stocks and is now invested in anywhere from 40 to 70.

Buying into medium-size companies can be particularly difficult. "Size means you have to look further ahead," says Jim Cox, head of U.K. strategy. Building construction concern RMC Group, for example, makes up about 3 percent of the Enterprise Fund, and Cox was able to buy that amount of stock in February only because another fund was an aggressive seller.

Cox says performance has been damaged by both the strength of sterling (which hurt U.K. exports) and the concentration of performance among the top U.K. stocks at a time when Schroders saw greater value in smaller companies. "Last year 46 percent of the performance in the U.K. market came from the top ten companies," he says.

Schroders did take steps, such as selling its holding in Reuters at the end of 1996, to protect its portfolio from the robust sterling. "But Shell U.K., British Petroleum, Glaxo Wellcome and all the other top ten companies that make most of their profits overseas should have underperformed but didn't," Cox adds. The reason: International investors were buying them even though U.K. investors were not.

A bet on medium-size companies has also hurt performance in Europe, long a weak sector for Schroders. The group has underperformed the median for five of the past six years. The firm overweighted the core countries of Germany, France and the Netherlands and missed out on the spectacular returns in Italy, Spain and Scandinavia.

Schroders decided that the problem was a lack of resources for European research. "In markets where longevity of experience has been a real asset, as in the U.K. or Japan, we have had a strong track record," says Salisbury. "In markets undergoing change -- such as, recently, in continental Europe -- we haven't done so well."

In response, Schroders began beefing up its European research two years ago. "We were very conscious that, previously, we hadn't made the most of our European research team," says Ralston. The firm also began managing its European portfolios on a pan-European sectoral basis, rather than by country. "We realized that we were adding more value in individual stock selection than in country decisions. We're looking at how we can ensure that global comparisons are formally taken into account," she says. It's unclear yet whether the new approach will pay off. In its first year, performance of the European portfolios picked up, but then exposure to medium-size stocks took its toll.

Schroders is also addressing the size problem. In the U.S. it has already limited the size of its emerging-markets and small-cap stock funds and may do so for some of its specialist portfolios in the U.K. as well. Says Ralston: "It will become more acceptable to close certain types of business than has been the case in the past. Previously, we had concerns about how such a move would be interpreted in the U.K."

In addition, Schroders is taking steps to pump up performance of its

pooled fund for small clients. It's streamlining the fund on a more tax-efficient model to bring it in line with Schroders' other balanced funds. "It became clear that while some institutions had been pleased with the fund-of-funds structure," says Salisbury, "there was demand for a more standardized, mainstream product." The move means the Enterprise Fund will soon turn back about $800 million of its portfolio to the pooled fund, which will put the money to work directly into the market.

"I'm in favor of the move," says Enterprise Fund manager Cox. "The less money there is, the easier the Enterprise Fund is to run."

On the investment side, however, Schroders is unlikely to stray from its conservative strategy. "Markets are at a more extended valuation than at any other time in our experience. I advise caution," says Salisbury. "That means holding more cash and bonds and moving away from too heavy a concentration on stocks in Western markets." He adds that the firm has no plans to change the way institutional money is managed in response to concerns about size. "Because we don't have a high turnover style, we are able to manage larger amounts of money without too much difficulty," he says.

And Schroders is also sticking to its preference for smaller stocks, particularly in the manufacturing, retail and property sectors. Cox thinks the U.K. economy and sterling will weaken and that international investors will start buying in continental Europe rather than the U.K. "The big stocks in the U.K. will go down," he predicts, thus returning medium-size companies to favor.

Schroders' market view may well prove correct. But if it is to maintain its leading market position and stand up to competition from aggressive U.S. firms, evolution seems inevitable. That may mean loosening up the investment process. "Schroders could allow its individual managers a little more discretion. At the moment, they are as tightly controlled as at any other firm," says Hymans Robertson's Henshilwood.

Structural changes might also be in the works. "I see Schroders as a one-product house," says a leading U.K. consultant, citing the group's lack of a high-performance overseas equity capability. "If they want to adapt to some of the changes clients are asking for, they may have to look again at their models."

Lackluster performance

Schroder Investment Management has disappointed smaller clients in its pooled fund...

(*)	Schroders' pooled **fund return** (percent)	**Median** of competitors' **returns** (percent)	**Rank**
First-quarter '98	10.4%	12.3%	No. 60 of 66
1997	9.1	11.1	No. 59 of 72
1996	23.0	22.6	No. 30 of 73
1995	1.2	-0.3	No. 14 of 72

... and larger clients are wondering if performance merits the fees...

	Median return of Schroders balanced funds (percent)	Upper quartile of competitors' returns(**) (percent)	Median of competitors' returns (percent)
1997	16.0%	16.8%	15.6%
1993-1997	14.5	14.3	13.8
1988-1997	14.5	14.4	14.0

... especially in overseas equities.

	Median return by Schroders (percent)	Median of competitors' returns (percent)	FT/S&P Actuaries world (ex-U.K.) index (percent)
1997	2.9%	6.1%	19.0%
1993-1997	11.0	11.7	12.6
1988-1997	12.6	12.2	11.5

(*) Performance measured against 83 U.K. investment managers with a total of more than $160 billion in pooled funds.

(**) Performance measured against a universe of 1,630 U.K. investment managers with a total of $490 billion under management.

Source: Combined Actuarial Performance Services.

Subscription: $415.00 per year. Published monthly. Circulation Department,
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CT *PC6720000 Investment Companies
CC *EC830 Sales, profits & dividends
CO *Schroder Investment Management Ltd.
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NAIC *52591 Open-End Investment Funds
GT *CC4EUUK United Kingdom
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AN 1999:554667 PROMT
TI Guided By The Stars.
AU ISRAELSEN, CRAIG L.
SO Financial Planning, (August 1999) Vol. 29, No. 8, pp. 51.
ISSN: 0746-7915.
PB Securities Data Publishing, Inc.
DT Newsletter
LA English
WC 7266
TX A fund's historical risk and return are factored into Morningstar's star ratings, but these two elements are not given equal weighting.

Look through just about any financial publication and you'll find that many mutual fund advertisements include Morningstar's "star" rating for one or more funds. But how exactly are those star ratings determined, and what other fund characteristics are the ratings correlated with?

The Morningstar rating attempts to transform historial measures of risk and return into a simple, graphical representation. This simple, at-a-glance approach is used by everyone from movie reviewers (thumbs up/thumbs down) to music critics (Rolling Stone's reviewers also use a star system) to bond-rating agencies (who use AAA, AA, etc.). In fields less quantifiable than fund performance, such an approach seems almost random. (For example, what exactly makes a four-star CD better than a three-and-a-half star CD?) With financial analytics, though, it's easier to examine how the star rating system works.

Morningstar's own literature describes the rating systems as follows: "Often simply called the Star Rating, the Risk-Adjusted Rating brings performance (returns) and risk together into one evaluation. To determine a fund's star rating for a given time period (three, five or 10 years), the fund's Morningstar Risk Score is subtracted from its Morningstar Return Score. The result is plotted on a bell curve to determine the fund's rating for each time period: If the fund scores in the top 10% of its broad asset class (domestic stock, international stock, taxable bond or municipal bond), it receives five stars (highest); if it falls in the next 22.5% it receives four stars (above average); a place in the middle 35% earns three stars (neutral); those lower still, in the next 22.5%, receive two stars (below average); and the bottom 10% get only one star (lowest).

Morningstar recognizes that no rating system can take into account all factors that one must consider before deciding to invest in a mutual fund.
The Risk-Adjusted Rating is intended as a way of identifying funds that have produced the highest level of returns relative to the risks they've taken. Investors should keep in mind that while it serves as an initial screen, the rating is only the first step toward a more comprehensive evaluation.

For example, the Global Total Return A fund has a current rating of three stars. This is based on its three-year (three stars), five-year (four stars) and 10-year (two stars) weighted average. A fund's overall return and risk profiles stem from a weighted average of these three time periods. The 10-year statistics account for 50% of the overall score, the

five-year figures for 30% and the three-year numbers, 20%. If only five years of history are available, the five-year period is weighted 60% and the three-year period, 40%. If only three years of data are available, the three-year figures alone are used.

The Morningstar Return figure puts a fund's returns in context of a risk-free rate. This figure also reflects the effect of loads (unlike regular total return figures).

Factor Scores For Star Rating And Other Portfolio Measures(*)

Variable	Factor 1	Factor 2	Factor 3
Three-Year Load-Adjusted Return	0.894	0.041	0.005
Sharpe Ratio (Three-Year)	0.864	0.034	0.012
Star Rating	0.814	0.000	0.009
Five-Year Load-Adjusted Return	0.802	0.108	0.002
Alpha (Three-Year)	0.756	0.126	0.013
10-Year Load-Adjusted Return	0.527	0.247	0.011
R-Squared (Three*Year)	0.432	0.016	0.151
Median Market Capitalization	0.385	0.000	0.016
Style Box Score	0.380	0.129	0.000
Five-Year Standard Deviation	0.006	0.948	0.024
Three-Year Standard Deviation	0.000	0.934	0.027
10-Year Standard Deviation	13.000	0.902	0.016
Beta (Three-Year)	0.006	0.888	0.003
Percentage of Assets in Top 10 Holdings	0.000	0.007	0.512

Variables that failed to "load" into (or join) one of the three factors that emerged: price-to-earnings ratio, turnover ratio, length of manager tenure, net assets of fund, number of holdings and expense ratio.

(*) Data as of March 31, 1999, for 691 domestic stock funds with at least 10 years of performance history. Factor analysis conducted using Number Cruncher Statistical Systems. For more information, visit the company's Web site (www.ncss.com).

Listed for three, five and 10 years, the Morningstar Risk statistic evaluates the fund's downside volatility relative to that of others in its broad asset class. To calculate the Morningstar Risk score, a fund's monthly returns are plotted in relation to Treasury bill returns. We add up the amounts by which the fund fell short of the T-bill's return and divide the result by the total number of months in the rating period. This number is then compared with those of other funds in the same broad asset class. The resulting risk score expresses how risky the fund is relative to the average fund in its asset class. The average risk score for the fund's asset class is set equal to 1.00; thus, a Morningstar risk score of 1.35 for a taxable-bond fund reveals that the fund has been 35% riskier than the average taxable-bond fund for the period considered.

Although Morningstar ratings are objective in the sense that they are influenced by neither economic forecasts nor subjective opinions of a fund manager's current strategy, the biases employed in designing the system should be understood. Morningstar works on the assumption that investors are reluctant to assume added risks unless they are compensated for such ventures. Low risk and high returns are rewarded equally. Accordingly, Morningstar's system tends to favor all-weather funds, which tend to

perform consistently over time.

In a sense, Morningstar's rating system assumes that each fund is the only position in an investor's account. On that basis, it clearly makes more sense to hold a five-star all-weather fund than a volatile one-star precious-metals fund. That doesn't suggest, however, that the lower-rated fund is without merit--in this case, the fund simply isn't designed to be an all-weather holding. Accordingly, there can be reasons to hold a low-rated fund. It all depends on an investor's goals and the other holdings in his or her portfolio.

Not all five-star funds are automatically all-weather funds, either. For example, a three-year-old fund may have begun at exactly the right time to benefit from certain market conditions, while never having been tested in an unfavorable market. Similarly, a high-yield bond fund with the same inception date has only been around long enough to see strength in its sector. A five-star rating on such a fund, however, doesn't reflect how the fund might have reacted when high-yield bonds fell severely out of favor in 1989 and 1990.

The ratings do help to distinguish between funds that can be used as core, stable holdings and those funds that promise more volatility. Even for a precious-metals portfolio, the ratings are useful. While no gold fund is likely to be a five-star fund, the ratings can help distinguish between a riskier one-star fund and a two-star fund that will give a smoother, if still lively, ride. Morningstar's ratings make clear such important distinctions, helping to ensure that investors get the characteristics they want.

Recognizing the limitations of Morningstar's basic rating system (or those of any quantitative system, for that matter) is highly useful. Morningstar's ratings have validity, but no quantitative system is infallible. Still, as a first-level screen supplemented by a wealth of fundamental information, the ratings work exceedingly well if investors treat them in the spirit intended. Any mutual fund tracking service can tell you which managers are on a winning streak; for example, Principia Pro can generate customized lists of top performers. But Morningstar's rating system tries to do something more: It identifies those funds that have been the most satisfying holdings, ones that investors can hold long enough to reap their rewards. High-risk funds may encourage buying at peaks, resulting in several years of waiting just to get back to par. Moreover, volatile funds also encourage the related evil of selling in valleys, because shareholders, when disenchanted with underperformance, often sell lagging funds before a rebound. Morningstar's system emphasizes steadier, more farsighted investing, the kind that is most likely to lead to significant long-term profits for shareholders.

In the Morningstar rating system, a low-risk/low-return fund and a high-risk/high-return fund could achieve identical average ratings (three stars). The individual components of risk and return are especially important in such a case, because these two funds would have very different purposes despite their equal ratings and, based on historical precedent, should produce returns that would adequately reward an investor for the risks incurred.

Recognizing its descriptive (rather than predictive) nature is essential in understanding the rating system. A fund's rating doesn't change because a fund's potential has somehow diminished or improved. The system is purely quantitative; a rating change simply reflects the change in a

fund's historical record of risk and return relative to its competitors'. Because Morningstar bases these evaluations on trailing performance records, a change in rating could be explained by a time period that drops out of consideration as well as one that is added.

That the Morningstar rating system doesn't lay claim to some magical methodology for predicting future returns differentiates it from the systems of many investment publications. The absence of forecasts, from the Morningstar point of view, is a strength, not a weakness. Investors can bring their own opinions--and not subjective criteria on the part of Morningstar--to the table. Therefore, even if a person disagrees with the opinions put forth in a Morningstar fund analysis, the rating still serves as a useful evaluation tool. Offering an objective measure of each fund's historical performance and risk and providing relevant data--portfolio statistics, composition, sector weightings, and so on--is Morningstar's goal. Having this information helps investors to determine if the fund's current positioning fits with their goals. To impose opinions on the basic rating structure could easily cloud that process.

MUTUAL FUND SURVEY

General Bond Investment Grade

Fund Name	YTD Return	3-Mo. Return	1-Year Return
CGM Fixed Income	6.76	3.55	4.08
Calvert Income Portfolio A	4.61	1.84	10.09
FPA New Income Inc	3.48	2.14	4.43
Metropolitan West Low Duration Bd	3.33	1.68	6.23
Dreyfus Short-Term Income Fund	2.85	1.20	3.05
BT Pyramid-Preserv Plus Inv	2.69	1.36	6.13
Strong Advantage Fund	2.64	1.15	4.30
Dreyfus Interm Term Income	2.61	0.23	4.52
SSgA Yield Plus Fund	2.52	0.79	4.47
SmBarney Concert Conserv A	2.39	1.95	4.03
AARP Diversified Income Fund	2.38	1.93	4.38
Marshall Short-Term Income	2.36	0.83	4.39
Fidelity Target Timeline 1999	2.34	1.20	5.78
MassMutual Inst-Prime Fund S	2.33	1.15	5.07
Standish Fd-Short Term Asset Res	2.28	0.95	5.07
59 Wall Street Inflation Index Sec	2.27	1.54	4.27
Payden & Rygel Limited Maturity R	2.21	1.10	5.25
SmBarney Concert Conserv B	2.14	1.83	3.50
Standish Fd-Controlled Maturity	1.77	0.51	4.24
Norwest Advantage-Stable Inc I	1.56	0.69	4.59
Fidelity Short-Term Bond	1.51	0.46	4.57
Nations Sh-Term Inc Pr A	1.49	0.27	4.64
Fidelity Adv Short-Fixed Income T	1.47	0.40	4.44
Northern Instl Short Interm Bond A	1.46	0.40	5.75
MassMutual Inst-Short-Term Bd S	1.46	0.48	4.66
Harbor Fund-Short Duration	1.42	0.48	4.86
Phoenix Duff&Phelps Enhan Resv X	1.41	0.61	3.83
American Performance Sh-Term Inc	1.39	0.14	5.03
Nations Sh-Term Inc Inv A	1.39	0.22	4.43
MFS Limited Maturity Fund A	1.37	0.38	3.11
AHA Limited Mat Fixed Income	1.31	0.58	6.55
Chase Vista Short Term Bond Fund I	1.23	0.36	3.88

Fund Name	3-Year Return	5-Year Return	Net Assets $ Millions	Exp. Ratio

CGM Fixed Income	4.99	9.14	33.00	N/A
Calvert Income Portfolio A	10.67	9.76	50.03	1.44
FPA New Income Inc	6.78	7.75	564.55	0.60
Metropolitan West Low Duration Bd	N/A	N/A	233.09	0.58
Dreyfus Short-Term Income Fund	6.56	6.72	357.12	0.87
BT Pyramid-Preserv Plus Inv	N/A	N/A	18.59	0.55
Strong Advantage Fund	5.95	6.11	2740.84	0.74
Dreyfus Interm Term Income	10.58	N/A	30.57	0.80
SSgA Yield Plus Fund	5.08	5.41	601.83	0.40
SmBarney Concert Conserv A	8.91	N/A	72.00	0.60
AARP Diversified Income Fund	N/A	N/A	107.50	0.62
Marshall Short-Term Income	5.71	5.76	133.35	0.80
Fidelity Target Timeline 1999	6.61	N/A	13.74	0.35
MassMutual Inst-Prime Fund S	5.27	N/A	212.40	0.45
Standish Fd-Short Term Asset Res	5.56	5.71	245.60	N/A
59 Wall Street Inflation Index Sec	4.23	5.03	13.13	N/A
Payden & Rygel Limited Maturity R	5.52	5.50	81.26	0.30
SmBarney Concert Conserv B	8.35	N/A	66.31	1.10
Standish Fd-Controlled Maturity	5.45	N/A	21.24	N/A
Norwest Advantage-Stable Inc I	5.70	N/A	175.98	0.65
Fidelity Short-Term Bond	5.81	5.47	921.81	0.67
Nations Sh-Term Inc Pr A	5.81	6.17	3.99	0.56
Fidelity Adv Short-Fixed Income T	5.65	5.51	315.95	0.90
Northern Instl Short Interm Bond A	6.43	6.73	176.49	N/A
MassMutual Inst-Short-Term Bd S	6.15	N/A	264.98	0.55
Harbor Fund-Short Duration	5.71	6.02	191.97	0.36
Phoenix Duff&Phelps Enhan Resv X	5.13	5.38	16.10	0.40
American Performance Sh-Term Inc	6.76	N/A	61.94	0.58
Nations Sh-Term Inc Inv A	5.60	5.96	14.52	0.91
MFS Limited Maturity Fund A	5.16	5.91	126.71	0.89
AHA Limited Mat Fixed Income	6.59	6.53	97.37	N/A
Chase Vista Short Term Bond Fund I	5.68	5.80	30.50	0.42

Fund Name	Max Load	Beta	Std. Deviation	Wiesen-berger Rating
CGM Fixed Income	0.00	0.39	7.21	31
Calvert Income Portfolio A	3.75	0.84	4.02	23
FPA New Income Inc	4.50	0.35	1.79	28
Metropolitan West Low Duration Bd	0.00	N/A	N/A	26
Dreyfus Short-Term Income Fund	0.00	0.28	2.41	37
BT Pyramid-Preserv Plus Inv	0.00	N/A	N/A	27
Strong Advantage Fund	0.00	0.04	0.70	44
Dreyfus Interm Term Income	0.00	0.92	4.87	31
SSgA Yield Plus Fund	0.00	0.02	0.56	32
SmBarney Concert Conserv A	4.50	0.73	5.57	30
AARP Diversified Income Fund	0.00	N/A	N/A	29
Marshall Short-Term Income	0.00	0.25	1.13	34
Fidelity Target Timeline 1999	0.00	0.39	1.55	29

MassMutual Inst-Prime Fund S	0.00	0.01	0.10	30
Standish Fd-Short Term Asset Res	0.00	0.14	0.73	50
59 Wall Street Inflation Index Sec	0.00	0.42	2.27	33
Payden & Rygel Limited Maturity R	0.00	0.08	0.38	30
SmBarney Concert Conserv B	0.00	0.74	5.57	31
Standish Fd-Controlled Maturity	0.00	0.32	1.52	34
Norwest Advantage-Stable Inc I	0.00	0.22	0.89	32
Fidelity Short-Term Bond	0.00	0.33	1.26	54
Nations Sh-Term Inc Pr A	0.00	0.32	1.24	32
Fidelity Adv Short-Fixed Income T	1.50	0.35	1.32	54
Northern Instl Short Interm Bond A	0.00	0.45	1.81	23
MassMutual Inst-Short-Term Bd S	0.00	0.46	1.73	32
Harbor Fund-Short Duration	0.00	0.21	1.07	30
Phoenix Duff&Phelps Enhan Resv X	0.00	0.20	0.88	37
American Performance Sh-Term Inc	2.00	0.38	1.46	31
Nations Sh-Term Inc Inv A	0.00	0.32	1.24	33
MFS Limited Maturity Fund A	2.50	0.38	1.67	39
AHA Limited Mat Fixed Income	0.00	0.34	1.54	44
Chase Vista Short Term Bond Fund I	0.00	0.35	1.39	35

Balanced Domestic

Fund Name	YTD Return	3-Mo. Return	1-Year Return
Oppenheimer/Quest Balanced Val A	14.94	8.00	34.75
Oppenheimer/Quest Balanced Val C	14.61	7.88	33.96
Oppenheimer/Quest Balanced Val B	14.59	7.88	34.01
Alger Fund-Balanced Port B	13.05	3.79	26.93
Dodge & Cox Balanced Fund	13.01	9.92	12.91
Rag Investors Value Builder Inst	11.78	5.11	19.26
Flag Investors Value Builder A	11.60	5.07	18.88
Parnassus Income Fd-Equity Income	11.30	10.77	21.41
IDEX Balanced A	11.13	2.79	26.69
Flag Investors Value Builder B	11.06	4.90	17.83
IDEX Balanced C	10.80	2.60	25.97
IDEX Balanced B	10.75	2.61	25.85
Janus Fd Inc-Balanced Fund	10.62	3.00	26.15
INVESCO Balanced	10.59	5.76	17.40
Fidelity Balanced Fund	10.37	4.86	18.98
USAA Asset Strategy-Balanced	10.35	4.19	12.80
Leonetti Balanced Fund	10.11	3.88	24.28
MSDW Balanced Growth B	10.09	7.94	14.34
MSDW Balanced Growth C	10.07	7.86	14.32
Warburg Pincus Bal Portf Com	10.07	10.86	11.18
AHA Balanced Portfolio	9.94	9.13	13.95
Oakmark Equity & Income Fd	9.91	9.91	13.09
MAS Balanced Instl	9.77	5.38	14.65
Excelsior Balanced Fd	9.58	9.03	5.24
MAS Balanced Adv	9.55	5.24	14.34
Kemper Retirement Fund-I	9.42	5.89	13.72
Norwest Advantage-Aggr Bal Eq I	9.41	6.14	19.62
Nuveen Balanced Stock & Bond A	9.29	7.20	10.19
FBP Contrarian Balanced Fund	9.07	8.78	14.24
American Balanced Fund	8.91	7.63	14.01
Nuveen Balanced Stock & Bond B	8.88	7.01	9.40
Prudential Balanced Z	8.77	6.11	9.78

Fund Name	3-Year Return	5-Year Return	Net Assets $ Millions	Exp. Ratio
Oppenheimer/Quest Balanced Val A	28.30	24.16	353.59	1.55
Oppenheimer/Quest Balanced Val C	27.53	23.28	99.59	2.15
Oppenheimer/Quest Balanced Val B	27.55	23.38	249.69	2.15
Alger Fund-Balanced Port B	22.51	20.82	29.90	2.58
Dodge & Cox Balanced Fund	16.78	17.29	5476.00	0.54
Rag Investors Value Builder Inst	23.54	N/A	144.89	0.89
Flag Investors Value Builder A	23.22	22.52	649.94	1.14
Parnassus Income Fd-Equity Income	15.60	16.82	40.16	N/A
IDEX Balanced A	24.35	N/A	40.55	1.84
Flag Investors Value Builder B	22.24	N/A	110.63	1.89
IDEX Balanced C	23.71	N/A	14.39	2.39
IDEX Balanced B	23.59	N/A	37.73	2.48
Janus Fd Inc-Balanced Fund	24.61	21.37	1858.81	0.93
INVESCO Balanced	21.55	22.54	194.63	1.15
Fidelity Balanced Fund	21.45	15.43	5566.54	0.70
USAA Asset Strategy-Balanced	16.24	N/A	89.07	N/A
Leonetti Balanced Fund	21.02	N/A	21.42	N/A
MSDW Balanced Growth B	N/A	N/A	103.93	188
MSDW Balanced Growth C	18.21	N/A	199.19	1.87
Warburg Pincus Bal Portf Com	14.70	16.48	32.99	1.35
AHA Balanced Portfolio	18.23	18.12	62.59	N/A
Oakmark Equity & Income Fd	18.68	N/A	60.20	1.19
MAS Balanced Instl	17.81	17.83	426.06	0.59
Excelsior Balanced Fd	12.47	N/A	33.66	0.70
MAS Balanced Adv	N/A	N/A	28.49	0.84
Kemper Retirement Fund-I	15.67	15.58	105.37	0.91
Norwest Advantage-Aggr Bal Eq I	N/A	N/A	23.39	1.00
Nuveen Balanced Stock & Bond A	N/A	N/A	65.82	1.10
FBP Contrarian Balanced Fund	17.98	18.15	65.00	1.04
American Balanced Fund	16.53	16.83	5947.00	0.63
Nuveen Balanced Stock & Bond B	N/A	N/A	11.72	1.85
Prudential Balanced Z	14.53	13.55	116.33	0.94

Fund Name	Max Load	Beta	Std. Deviation	Wiesen-berger Rating
Oppenheimer/Quest Balanced Val A	5.75	1.09	13.41	2
Oppenheimer/Quest Balanced Val C	0.00	1.09	13.42	2
Oppenheimer/Quest Balanced Val B	0.00	1.09	13.38	2
Alger Fund-Balanced Port B	0.00	1.24	14.64	3
Dodge & Cox Balanced Fund	0.00	0.88	10.56	18
Rag Investors Value Builder Inst	0.00	1.14	13.15	7
Flag Investors Value Builder A	4.50	1.14	13.15	7
Parnassus Income Fd-Equity				

Income	0.00	1.15	14.88	5
IDEX Balanced A	5.50	1.03	12.76	3
Flag Investors Value Builder B	0.00	1.15	13.17	9
IDEX Balanced C	0.00	1.02	12.73	3
IDEX Balanced B	0.00	1.03	12.77	3
Janus Fd Inc-Balanced Fund	0.00	1.02	13.15	3
INVESCO Balanced	0.00	0.90	10.74	7
Fidelity Balanced Fund	0.00	0.99	10.88	10
USAA Asset Strategy-Balanced	0.00	0.98	11.38	13
Leonetti Balanced Fund	0.00	1.22	14.77	4
MSDW Balanced Growth B	0.00	N/A	N/A	8
MSDW Balanced Growth C	0.00	0.97	10.85	8
Warburg Pincus Bal Portf Com	0.00	0.90	11.02	18
AHA Balanced Portfolio	0.00	1.10	12.80	14
Oakmark Equity & Income Fd	0.00	0.90	11.24	8
MAS Balanced Instl	0.00	0.98	10.82	10
Excelsior Balanced Fd	0.00	0.85	10.92	22
MAS Balanced Adv	0.00	N/A	N/A	11
Kemper Retirement Fund-I	5.00	0.85	11.02	14
Norwest Advantage-Aggr Bal Eq I	0.00	N/A	N/A	6
Nuveen Balanced Stock & Bond A	5.75	N/A	N/A	15
FBP Contrarian Balanced Fund	0.00	1.09	12.39	40
American Balanced Fund	5.75	0.76	8.82	20
Nuveen Balanced Stock & Bond B	0.00	N/A	N/A	17
Prudential Balanced Z	0.00	1.03	11.84	18

Source: Wiesenberger. All returns are as of June 30, 1999. Net assets are as of March 31, 1999. Please call Wiesenberger at (800) 232-2285 with any questions regarding these figures. The Wiesenberger rating is a risk-adjusted measure expressed in percentile from 1 (best) to 100 (worst). Only funds with a minimum of $10 million in net assets are included.

MUTUAL FUND SURVEY

Municipal National

Fund Name	YTD Return	3-Mo. Return	1-Year Return
Strong Municipal Advantage Fund	1.58	0.64	3.96
Calvert Tax Free Reserve-Ltd A	1.35	0.60	3.42
Nations Sh-Term Muni Inc Pr A	1.24	0.23	3.86
Bernstein Sh-Duration Dvrs Muni	1.22	0.33	3.34
Nations Sh-Term Muni Inc Inv A	1.14	0.18	3.65
Nations Sh-Term Muni Inc Inv B	1.07	0.14	3.50
Dreyfus Sh-Interm Tax Exempt	0.96	0.17	3.39
Payden & Rygel Short Dur T/E R	0.84	-0.19	3.17
Vanguard Muni-Short Term	0.76	0.04	3.08
AXP Intermediate Tax Exempt A	0.68	-0.01	3.12
Merrill Lynch Muni Ltd Mat D	0.67	0.10	3.19
Merrill Lynch Muni Ltd Mat A	0.62	0.03	3.29
Morgan Grenfell Sh Term Muni Fd	0.61	-0.04	3.43
Excelsior Sh Term Tax Ex Sacs	0.58	-0.27	3.27
USAA Tax Exempt-Short Term	0.55	-0.10	3.25
Federated Sh Term Muni Instl	0.55	-0.12	3.39
Merrill Lynch Muni Ltd Mat B	0.55	0.04	2.92
Strong Short-Term Muni Bd	0.54	-0.77	3.57
Fidelity Spartan Sh-Interm Muni	0.53	-0.43	3.30
Goldman S, Short Dur T/F Inst	0.46	-0.47	2.98
Federated Limited Term Muni F	0.44	-0.30	3.10

Federated Sh Term Muni Instl-Svc	0.42	-0.18	3.13
Federated Limited Term Muni A	0.32	-0.36	2.84
Evergreen Sh-Intermed Muni Y	0.30	-0.38	3.25
Goldman S. Short Dur T/F A	0.26	-0.57	2.61
Price (T. Rowe) T/F Sh-Interm	0.07	-0.70	2.90
59 Wall Street T/F Sh-Int Fix/Inc	-0.07	-0.61	2.60
Bernstein Diversified Municipal	-0.08	-0.90	2.54
American Century Ltd Term Tax-Free	-0.10	-0.81	2.92
Thornburg Ltd Term Muni-Natl I	-0.11	-0.84	2.87
Vanguard Muni-Limited Term	-0.11	-0.97	2.80
Glenmede Intermediate Muni	-0.15	-0.94	2.62

Fund Name	3-Year Return	5-Year Return	Net Assets $ Millions	Exp. Ratio
Strong Municipal Advantage Fund	4.76	N/A	2139.67	0.59
Calvert Tax Free Reserve-Ltd A	3.79	4.01	571.94	0.73
Nations Sh-Term Muni Inc Pr A	4.57	4.76	79.07	0.40
Bernstein Sh-Duration Dvrs Muni	3.79	N/A	177.38	N/A
Nations Sh-Term Muni Inc Inv A	4.36	4.56	35.72	0.60
Nations Sh-Term Muni Inc Inv B	4.20	4.40	13.89	0.75
Dreyfus Sh-Interm Tax Exempt	4.39	4.39	303.11	0.75
Payden & Rygel Short Dur T/E R	3.93	N/A	16.49	0.50
Vanguard Muni-Short Term	3.80	3.96	1767.98	0.20
AXP Intermediate Tax Exempt A	N/A	N/A	24.79	0.92
Merrill Lynch Muni Ltd Mat D	3.91	N/A	90.10	0.54
Merrill Lynch Muni Ltd Mat A	3.97	4.05	272.50	0.43
Morgan Grenfell Sh Term Muni Fd	5.34	N/A	91.00	N/A
Excelsior Sh Term Tax Ex Sacs	4.13	4.18	42.90	0.55
USAA Tax Exempt-Short Term	4.79	4.96	1031.29	N/A
Federated Sh Term Muni Instl	4.22	4.40	202.98	0.94
Merrill Lynch Muni Ltd Mat B	3.64	3.70	45.10	0.78
Strong Short-Term Muni Bd	5.48	4.51	315.80	0.58
Fidelity Spartan Sh-Interm Muni	4.52	4.76	673.89	0.55
Goldman S, Short Dur T/F Inst	4.57	4.55	78.33	0.39
Federated Limited Term Muni F	4.19	4.44	38.33	1.04
Federated Sh Term Muni Instl-Svc	3.96	4.14	15.88	0.87
Federated Limited Term Muni A	3.93	4.21	92.26	0.90
Evergreen Sh-Intermed Muni Y	4.30	4.14	157.78	0.64
Goldman S. Short Dur T/F A	N/A	N/A	23.36	0.79
Price (T. Rowe) T/F Sh-Interm	4.43	4.67	455.88	0.53
59 Wall Street T/F Sh-Int Fix/Inc	3.75	4.08	95.77	N/A
Bernstein Diversified Municipal	5.00	5.50	1451.58	N/A
American Century Ltd Term Tax-Free	4.34	4.50	40.69	N/A
Thornburg Ltd Term Muni-Natl I	4.73	5.06	83.71	0.60
Vanguard Muni-Limited Term	4.40	4.61	2536.91	0.21
Glenmede Intermediate Muni	5.24	5.63	18.51	0.14

Fund Name	Max Load	Beta	Std. Deviation	Wiesen-berger Rating
Strong Municipal Advantage Fund	0.00	0.11	0.51	35
Calvert Tax Free Reserve-Ltd A	1.00	0.10	0.40	59
Nations Sh-Term Muni Inc Pr A	0.00	0.29	0.96	35
Bernstein Sh-Duration Dvrs Muni	0.00	0.15	0.57	37
Nations Sh-Term Muni Inc Inv A	0.00	0.29	0.96	36
Nations Sh-Term Muni Inc Inv B	0.00	0.29	0.96	36
Dreyfus Sh-Interm Tax Exempt	0.00	0.30	0.99	58
Payden & Rygel Short Dur T/E R	0.00	0.25	0.89	39
Vanguard Muni-Short Term	0.00	0.17	0.65	59
AXP Intermediate Tax Exempt A	5.00	N/A	N/A	38
Merrill Lynch Muni Ltd Mat D	1.00	0.20	0.75	39
Merrill Lynch Muni Ltd Mat A	1.00	0.21	0.78	59
Morgan Grenfell Sh Term Muni Fd	0.00	0.30	1.06	38
Excelsior Sh Term Tax Ex Sacs	0.00	0.32	1.13	38
USAA Tax Exempt-Short Term	0.00	0.33	1.10	60
Federated Sh Term Muni Instl	0.00	0.31	1.06	60
Merrill Lynch Muni Ltd Mat B	0.00	0.19	0.72	41
Strong Short-Term Muni Bd	0.00	0.39	1.39	37
Fidelity Spartan Sh-Interm Muni	0.00	0.45	1.43	58
Goldman S, Short Dur T/F Inst	0.00	0.39	1.30	40
Federated Limited Term Muni F	0.00	0.33	1.16	39
Federated Sh Term Muni Instl-Svc	0.00	0.31	1.06	39
Federated Limited Term Muni A	1.00	0.33	1.16	42
Evergreen Sh-Intermed Muni Y	0.00	0.42	1.42	38
Goldman S. Short Dur T/F A	2.00	N/A	N/A	43
Price (T. Rowe) T/F Sh-Interm	0.00	0.47	1.59	60
59 Wall Street T/F Sh-Int Fix/Inc	0.00	0.34	1.22	43
Bernstein Diversified Municipal	0.00	0.64	2.06	58
American Century Ltd Term Tax-Free	0.00	0.46	1.55	42
Thornburg Ltd Term Muni-Natl I	0.00	0.49	1.61	56
Vanguard Muni-Limited Term	0.00	0.45	1.55	58
Glenmede Intermediate Muni	0.00	0.63	2.07	45

Corporate High-Yield

Fund Name	YTD Return	3-Mo. Return	1-Year Return
Dreyfus High Yield Securities	15.52	6.66	-10.22
Loomis Sayles High Yield Inst	14.84	6.28	2.63
Fidelity Capital & Income	13.19	5.14	9.68
J. Hancock High Yield Bond A	9.11	4.02	-8.12
J. Hancock High Yield Bond B	8.72	3.83	-8.82

Legg Mason Tax Inc-High Yld Prim	8.64	-2.43	-1.82
Fidelity High Income	8.61	1.63	4.87
Eaton Vance Inc Fd of Boston	7.90	1.77	4.28
Penn Capital Strategic HY Bond	7.60	4.58	-3.39
Fidelity Adv High Yield Fund I	7.29	1.44	1.46
Fidelity Adv High Yield Fund A	7.19	1.29	1.22
MainStay High Yield Corp Bond A	7.13	2.80	3.37
J, Hancock High Yield Bond C	7.13	2.32	-10.15
Fidelity Adv High Yield Fund T	7.11	1.36	1.18
Eaton Vance High Income C	7.10	1.40	2.99
Eaton Vance High Income B	6.83	1.42	2.87
Fidelity Adv High Yield Fund B	6.82	1.19	0.57
Fidelity Adv High Yield Fund C	6.76	1.16	0.50
MainStay High Yield Corp Bond B	6.75	2.62	2.63
INVESCO High Yield Fund	5.97	0.27	0.15
AXP Extra Income A	5.87	0.70	-3.26
SteinRoe High Yield	5.50	0.59	3.43
AXP Extra Income B	5.47	0.51	-3.99
PaineWebber High Income A	5.45	3.82	-5.90
Nicholas-Applegate High Yld Bond I	5.40	2.43	2.46
Value Line Aggressive Inc	5.33	1.63	-4.39
MFS High Income Fund A	5.29	0.17	0.44
PaineWebber High Income B	5.24	3.79	-6.49
PaineWebber High Income C	5.20	3.85	-6.35
American High-income Trust	5.18	2.87	2.17
Putnam High Yield Advantage A	5.17	2.08	-8.35
Oppenheimer Champion Income Fd A	5.12	0.67	1.34

Fund Name	3-Year Return	5-Year Return	Net Assets $ Millions	Exp. Ratio
Dreyfus High Yield Securities	8.95	N/A	153.12	1.06
Loomis Sayles High Yield Inst	N/A	N/A	18.80	0.75
Fidelity Capital & Income	13.16	11.39	2413.25	0.81
J. Hancock High Yield Bond A	7.36	7.84	279.60	1.05
J. Hancock High Yield Bond B	6.55	7.03	818.69	1.80
Legg Mason Tax Inc-High Yld Prim	9.97	10.82	482.53	1.30
Fidelity High Income	11.92	12.41	3190.41	0.80
Eaton Vance Inc Fd of Boston	11.89	10.84	275.46	1.04
Penn Capital Strategic HY Bond	N/A	N/A	41.03	1.76
Fidelity Adv High Yield Fund I	10.02	N/A	131.04	0.83
Fidelity Adv High Yield Fund A	9.73	10.20	158.21	1.01
MainStay High Yield Corp Bond A	10.06	11.49	301.78	1.00
J. Hancock High Yield Bond C	N/A	N/A	25.71	1.79
Fidelity Adv High Yield Fund T	9.99	10.76	2582.57	1.09
Eaton Vance High Income C	10.80	9.91	61.61	1.77
Eaton Vance High Income B	10.93	10.04	689.31	1.73
Fidelity Adv High Yield Fund B	9.27	N/A	1127.97	1.74
Fidelity Adv High Yield Fund C	N/A	N/A	212.74	1.86
MainStay High Yield Corp Bond B	9.32	10.86	3364.02	1.75
INVESCO High Yield Fund	11.42	12.23	927.12	0.94
AXP Extra Income A	6.54	8.63	2841.59	0.93
SteinRoe High Yield	N/A	N/A	44.36	1.00
AXP Extra Income B	5.77	N/A	1054.45	1.69
PaineWebber High Income A	6.90	5.90	248.27	0.91

Nicholas-Applegate High Yld Bond I	N/A	N/A	11.27	0.76
Value Line Aggressive Inc	7.55	10.02	164.93	0.82
MFS High Income Fund A	9.12	9.82	819.06	0.99
PaineWebber High Income B	6.10	5.14	159.55	1.66
PaineWebber High Income C	6.42	5.40	95.39	1.41
American High-income Trust	9.15	10.07	2699.00	0.81
Putnam High Yield Advantage A	4.99	659	1167.39	0.92
Oppenheimer Champion Income Fd A	8.54	9.07	654.84	1.06

Fund Name	Max Load	Beta	Std. Deviation	Wiesen-berger Rating
Dreyfus High Yield Securities	0.00	2.07	13.21	95
Loomis Sayles High Yield Inst	0.00	N/A	N/A	68
Fidelity Capital & Income	0.00	1.81	9.97	21
J. Hancock High Yield Bond A	4.50	193	10.95	96
J. Hancock High Yield Bond B	0.00	1.94	10.96	83
Legg Mason Tax Inc-High Yld Prim	0.00	1.16	8.00	82
Fidelity High Income	0.00	1.80	9.46	37
Eaton Vance Inc Fd of Boston	4.75	1.50	7.71	33
Penn Capital Strategic HY Bond	0.00	N/A	N/A	86
Fidelity Adv High Yield Fund I	0.00	1.87	9.78	62
Fidelity Adv High Yield Fund A	4.75	1.88	9.84	48
MainStay High Yield Corp Bond A	4.50	1.45	7.69	32
J. Hancock High Yield Bond C	0.00	N/A	N/A	96
Fidelity Adv High Yield Fund T	3.50	1.88	9.85	48
Eaton Vance High Income C	0.00	1.48	7.58	37
Eaton Vance High Income B	0.00	1.48	7.61	38
Fidelity Adv High Yield Fund B	0.00	1.88	9.83	74
Fidelity Adv High Yield Fund C	0.00	N/A	N/A	75
MainStay High Yield Corp Bond B	0.00	1.45	7.70	35
INVESCO High Yield Fund	0.00	1.61	8.56	55
AXP Extra Income A	5.00	1.39	7.56	67
SteinRoe High Yield	0.00	N/A	N/A	36
AXP Extra Income B	0.00	1.38	7.48	86
PaineWebber High Income A	4.00	1.82	9.56	74
Nicholas-Applegate High Yld Bond I	0.00	N/A	N/A	39
Value Line Aggressive Inc	0.00	1.37	7.73	67
MFS High Income Fund A	4.75	1.44	7.37	60
PaineWebber High Income B	0.00	1.82	9.57	91
PaineWebber High Income C	0.00	1.82	9.58	90
American High-income Trust	4.75	1.56	8.17	39
Putnam High Yield Advantage A	4.75	1.83	9.57	75
Oppenheimer Champion Income Fd A	4.75	1.30	6.58	43

Source: Wiesenberger. All returns are as of June 30, 1999. Net assets are as of March 31, 1999. Please call Wiesenberger at (800) 232-2285 with any questions regarding these figures. The Wiesenberger rating is a risk-adjusted measure expressed in percentile from 1 (best) to 100 (worst). Only funds with a minimum of $10 million in net assets are included.

The Average Morningstar Rating reveals a fund's historical relative performance consistency. Unlike the Morningstar Risk-Adjusted Rating, the average figure accounts for a fund's entire ratings history. The average rating finds the mean of every rating for every rated month of a fund's history. A fund's rating may fluctuate over time; this statistic can assist investors in assessing a fund's overall rating history, and put the fund's current rating in context.

The average rating statistic helps prevent investors from judging a low-rated fund with a stronger overall history too harshly--and from viewing five-star funds with more troubled pasts in too favorable a light. It can be particularly helpful in assessing five-star funds with less than a 10-year track record.

As pointed out by Morningstar, the star rating "brings performance (returns) and risk together into one evaluation." A fair question is: Are risk and return equally weighted in the star rating system? Another question would naturally follow: Should risk be equally weighted with return? Inasmuch as many investors likely define return as the ultimate measure of a fund's success, risk (or volatility of return over time) may be a less important measure of fund success--after the fact, of course. Said differently, many investors don't want to see risk through the windshield, but don't mind seeing it through the rearview mirror after having arrived at their desired destination.

This analysis attempts to deal with the first question (are risk and return equally weighted?) rather than the more subjective question of whether risk and return should be equally weighted. Figure 1 reports the results of factor analysis involving 691 domestic equity funds with at least 10 years of performance history as of March 31, 1999. Factor analysis is a statistical procedure that allows data to separate into "teams" (or factors) which share behavioral commonalities. Factor analysis was used to investigate which measure--risk or return the star rating system weights more heavily. In other words, what does the star rating tell us more about: historical risk or historical return?

Notice that the star rating joined a "team" (Factor 1) that is comprised of measures that generally (or directly) relate to annualized return. Factor 1 does not have a name assigned to it within the factor analysis, but from the variables that joined into Factor 1 we can determine that it is the "return" team. Therefore, the star rating joined the team of variables that all directly or indirectly relate to historical return. The size of each coefficient describes the strength of association within the team, or factor. For example, Three-Year Load-Adjusted Return has a coefficient of .894, while Style Box Score (1=Large-Cap Value, 9=Small-Cap Growth) has a coefficient of .380. This affirms the obvious: Three-Year Load-Adjusted Return is more strongly associated to a "return factor" (Factor 1) than is a fund's Equity Style Box score. The equity style of a fund is not unrelated to its historical return, it's just not as significant as historical return itself.

From the results in Figure 1 it appears that Sharpe ratio and alpha are reasonably good surrogate measures for star rating (and vice versa). In other words, a mutual fund's star rating will typically have a positive correlation to that same fund's Sharpe ratio and alpha coefficient. A fund's equity style (as measured by Morningstar's Style Box), R-Squared and the median market capitalization of the **fund**'s portfolio are

also correlates of a **fund's star rating,** though somewhat weaker. (The link between **median** market cap and **return** was explored in "Why Size Matters" in the April issue of Financial Planning.)

Factor 2 emerged as the risk measure factor, with standard deviation of return (three-, five- and 10-year) and beta (three-year) as the team members. So, when it came to "choosing teams," the star rating chose to side with return measures rather than risk measures. This suggests that Morningstar's Star Rating is more heavily weighted toward historical return than historical risk. Given that many investors have a general preference for return maximization rather than risk minimization, such a weighting seems appropriate.

A third factor emerged, but only one variable "joined" in, that being Percentage of Assets in Top 10 Holdings. This particular variable did not share significant behavioral commonalities with the return variables (Factor 1) or the risk variables (Factor 2). With only one variable in it, Factor 3 is not descriptive and does not warrant further discussion.

Also of interest are the variables that were not included in any of the three factors: Price/Earnings Ratio, Turnover Ratio, Length of Manager Tenure, Net Assets of Fund, Number of Holdings in the Portfolio and Expense Ratio. According to the factor analysis, the excluded variables did not share sufficient commonalities with return or risk to be included in either factor. If analyzed independently, some of the excluded variables may indeed be found to have meaningful correlation to historical return and/or historical risk of a fund. However, factor analysis creates somewhat of a competition in which only the strongest correlates of the emergent factors end up on a "team." In that light, the excluded factors were not able to compete with historical return data, Sharpe Ratio, Star Rating and the rest for inclusion within a factor.

When navigating by the stars, it's important to know where they are guiding us. The stars of Morningstar appear to guide mutual fund investors more toward return than

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CT *PC8930000 Accounting & Auditing Services; PC6721000 Mutual Fund Mgmt Companies
CC *EC850 Financial analysis
ICL *BANK Banking, Finance and Accounting; BUSN Any type of business
NAIC *54121 Accounting, Tax Preparation, Bookkeeping, and Payroll Services; 52392 Portfolio Management
GT *CC1USA United States
FEAT LOB; INDUSTRY

L9 ANSWER 19 OF 38 PROMT

AN 1999:297854 PROMT
TI Stein Roe Mutual Funds Restructures Equity Investment Function.
SO Business Wire, (7 May 1999) pp. 1125.
PB Business Wire
DT Newsletter
LA English
WC 920
TX CHICAGO--(BUSINESS WIRE)--May 7, 1999--

Stein Roe Mutual Funds today announced a restructuring of its equity investment function that, among other steps, includes significant actions on four of its funds.

"These changes result from a lengthy and thoughtful review of our equity investment function that included all of our portfolio managers," said Thomas W. Butch, president of Stein Roe Mutual Funds. "They are intended to create a more competitive and attractive product line and to strengthen our capacity to provide consistently strong equity fund performance."

Product Actions

Stein Roe Mutual Funds' Board of Trustees has approved the following product actions:

- Subject to shareholder approval, Stein Roe Capital Opportunities Fund will merge into Stein Roe Growth Investor Fund, a recently launched multicap growth fund which, through a "master/feeder" structure, invests in the same portfolio of equity securities as the Stein Roe Young Investor **Fund**, **rated** five-**stars** overall by Morningstar, Inc.(a) This move offers Capital Opportunities **Fund** shareholders an opportunity to participate in a mutual fund that has provided highly competitive historical **returns** at what is **expected** to be a lower overall expense ratio. The merger is expected to be completed this summer. The master fund in which Growth Investor Fund invests, is managed by Erik P. Gustafson and David P. Brady. Pending the merger, Gustafson and Brady become co-managers of Capital Opportunities Fund. Gloria Santella, Capital Opportunities Fund's current manager, will be leaving the firm.

- Stein Roe Special Fund will be assigned immediately to Daniel K. Cantor, manager of Stein Roe Growth & Income Fund. The Fund will pursue a midcap blend investment strategy and will be renamed Stein Roe Disciplined Stock Fund. Gerry M. Sandel, Special Fund's current manager, will be leaving the firm.

- Stein Roe Special Venture Fund will be liquidated on or before June 28, 1999. The decision to liquidate the fund was prompted by its small asset size and its uncompetitive performance record. Shareholders will have the option to redirect their investments to other Stein Roe funds in advance of the liquidation.

- Stein Roe Growth Opportunities Fund will be restructured to emphasize a midcap growth investment strategy versus its current multicap strategy. It will be renamed Stein Roe Midcap Growth Fund and will continue to be managed by Eric Maddix and Arthur J. McQueen.

"With these initiatives, we are addressing the most significant issues in our equity product line and redirecting significant assets to better performing products," said Butch.

The product initiatives are part of a larger program at Stein Roe that also includes a significant increase in resources supporting equity portfolio managers. These resources will include hiring additional research professionals in the equity area and increased use of technology to support the investment process.

"We believe that the span of actions we have set in motion will invigorate the Stein Roe fund family and help to successfully lead us forward," said Butch.

Stein Roe Mutual Funds is a Chicago-based fund family comprised of 20 no-load mutual funds and six funds offered through financial intermediaries. The Stein Roe fund family is part of Liberty Financial Companies, Inc. (NYSE:L), a diversified asset accumulation and management organization with approximately $61 billion in assets under management for more than 1.7 million investors worldwide.

(a)Morningstar proprietary ratings reflect historical risk-adjusted performance as of 4/30/99. The Fund is rated against 2976 and 1816 domestic equity funds for the 3- and 5-year periods, respectively. Subject to change every month, ratings are calculated from 3-, 5- and 10-year **average** annual **returns** in excess of 90-day Treasury bill returns with appropriate adjustments for fees and a risk factor that reflects fund performance below 90-day Treasury bill returns. If a fund scores in the top 10% of its class, it receives 5 stars; if it falls in the next 22.5%, it receives four stars.

(b)**Average** Annual Total **Returns**

Through 3/31/99	6 Months	1 Year	3 Years	Life of Fund
Growth Investor Fund	31.35%	13.315	25.77%	27.27%
Lipper Growth Fund peer group avg.	28.23	13.56	21.73	20.62
S&P 500 Index	27.32	18.49	28.07	26.39

Growth Investor Fund commenced operations on March 31, 1999. The Fund is a feeder fund is a master/feeder structure and invests all of it assets in SR&F Growth Investor Portfolio, which as the same investment objective and policies as the Fund. The Fund's historical performance for all periods prior to 3/31/99 is the performance of Young Investor Fund, a separate feeder fund to the SR&F Growth Investor Portfolio. Performance of Young Investor Fund is not restated for any difference in expenses between the Fund and Young Investor Fund. Performance after 3/31/99 is the performance of Growth Investor Fund. An expense limit of 1.10% of net assets is in effect for the Fund; performance after 3/31/99 would have been lower without the expense limitation. Lipper, Inc., is a monitor of mutual fund performance. This growth fund category contains 1105, 1022, 619 and 391 funds for the 6 month, 1-, 3-years and Life of Fund periods ended 3/31/99,

respectively.

Past performance is no guarantee of future results. Share price and investment return will vary, so you may have a gain or loss when you sell shares. Total return performance includes changes in share price and reinvestment of income and capital gains distributions.

Funds that emphasize investments in smaller companies may experience greater volatility.

Liberty Funds Distributor, Inc. 5/99

CT *PC6000000 Financial Services; PC6282000 Investment Advisers
CO *.Liberty Funds Distributor, Inc; Stein Roe and Farnham Inc.
ICL *BUS Business, General; BUSN Any type of business
NAIC *52 Finance and Insurance; 52393 Investment Advice
GT *CC1USA United States
F

L9 ANSWER 20 OF 38 PROMT

AN 1998:46417 PROMT
TI Spin Control And Style Rotation
AU Lavine, Alan
SO Financial Planning, (Jan 1998) pp. 69.
ISSN: 0746-7915.
LA English
WC 2181
TX ALAN LAVINE

There is more than one way to take advantage of equity style rotation when managing your clients' portfolios. There are a fistful of quantitative, fundamental and technical tactics you can use to take advantage of stock rotation cycles in the market. In fact, research shows that if you rebalance a portfolio based on style, returns can be enhanced dramatically.

Dan Wiener, editor of the Independent Adviser for Vanguard Investors in New York, developed a simple trading tactic that has outperformed the Standard & Poor's 500 in every rolling 10-year period from 1975 through 1994. (Wiener's publication is not affiliated with the Vanguard Group of Valley Forge, Pa.) By simply rebalancing between the Vanguard Growth Index Fund and Vanguard Value Index Fund, he outpaced the market averages. The Growth Index Fund is made up of S&P 500 stocks with the higher price-to-book values. By contrast, the Value Index fund owns stock with the lowest book values.

He always switched 100% into the underperforming index every three months.
Wiener found that over 39 rolling 10-year periods from 1975 to 1994, shifting back and forth from growth to value resulted in an annually compounded rate of return of 16.5%. By contrast, the S&P 500 gained 15.6%.
A $10,000 investment using style switching grew to $212,089, while the same investment in the S&P 500 would have gained only $181,617.

More recently, Michael Carty, principal of New Millennium Advisors in New York, found that over the last 10 years, shifting into the right style equity funds paid off. The annual return of an investor who selected equity styles that outperformed all others one year into the future would have been 30.4% versus 16.8% for a composite index of all styles, he found.

Woulda, coulda, shoulda. These studies, of course, are hypothetical. Past performance does not guarantee future results. However, the results show there is potential to take advantage of equity style analysis to boost clients' investment returns over the long haul.

There are several ways to go about adjusting portfolios made up of growth and value funds based on the market capitalization of the stocks in the fund. They involve measures that include bottom-fishing for funds of a particular investment style that are likely to rebound, spotting emerging trends, determining the **expected rates** of **return** on **funds**, as well as technical analysis to confirm trends.

'You can enhance total return by taking.advantage of style rotation,' says Albert Fredman, professor of finance at California State University and author of Building Your Mutual Fund Portfolio.'But I wouldn't do market timing. Just 5% to 10% shifts into styles that have underperformed for at least two years.'

There are no surefire ways to profit. However, judgment calls can be made based on cycles or barometers that can be used to give you an idea of emerging style trends. Small-company stocks tend to outperform large-company stocks in roughly four- to five-year cycles, according to Ibbotson Associates data. Within the small-company sector, you can expect growth and value stocks to take turns outperforming each other. Other small-company stock trends to consider include:

Small stocks historically have performed well in January.

Since 1954, small-company stocks have outperformed large-company stocks in the 12 months immediately following a recession.

Small-company stocks exhibit a pattern of leading and lagging the S&P 500 for several years at a time. For example, they outpaced the S&P 500 from 1961 through 1968, then fell behind for eight years. Small-company stocks then beat the broad market from 1974 through 1983. Large-company stocks outpaced their smaller cousins for the next seven years. But now, small-company stocks are performing well.

Although small- and large-company stocks take turns outperforming one another, Porter Morgan, investment strategist with Liberty Financial Companies in Boston, says it's a tough time to switch between small- and large-company stocks. It's better to own both growth and value in the small-cap sector, he says, then periodically rebalance a portfolio so that money is taken out of overvalued funds of a particular style and redeployed in underperforming **funds** with higher **expected rates** of **return**.

'One of the biggest mistakes investors make is buying the funds of a particular style that have the best current track records,' Morgan says. 'An investor who bought small-cap funds after their stellar performance in 1993 would have chosen poorly. In 1994, small-cap stocks were down 2.7%, while large-cap stocks gained 2%.'

Today, Morgan says, we may be at a turning point in the market. Small-cap stocks have underperformed large caps over the past couple of years. In the three years from April 1994 to April 1997, the S&P 500 almost doubled the performance of small-cap stocks as measured by the Russell 2000 Index. But since April, the situation has started to reverse itself. Small- and mid-cap stocks have outperformed large-cap stocks.

For the month ended August 1997, the Russell 2000 outdistanced the S&P 500 by nearly 7.8%, its largest monthly margin since 1992. 'It's not wise to try and guess which investment style will outperform over the short term,' Morgan says. 'Rather, make sure a portfolio contains a suitable balance of both large- and small-company stocks.'

Checking relative valuations also can point you in the right direction of whether to invest in large- or small-company stock funds. The

price-to-earnings ratio on the T. Rowe Price New Horizons Fund is often used as a barometer to indicate whether it's time to invest in large caps or small caps. Avoid small-company stock funds when the relative P/E to the S&P 500 of the New Horizons fund is near its historical high of 2. By contrast, it's time to buy small-company stocks when relative P?E is near its historical low of 1.

John LaPorte, manager of the fund, counsels advisers that before they invest clients' assets; they should look at how long large or small stocks have lagged behind their cousins. If, for example, small stocks have gone through some big corrections, it could be time to bottom fish.

After being battered in April 1997, the ratio of P/E on the New Horizons fund to the P/E on the S&P 500 stood at a two-year low of 1.17 in June. Over the next three months, small-company stocks gained 14.9%, according to LaPorte.

Along the same lines as large- and small-company stocks, growth and value stocks tend to move in 18- to 24-month cycles, but they tend to be less predictable than market capitalization cycles, notes Fredman, of California State. However, he says that over 10- and 15-year periods, the difference between the returns on growth and value stocks is statistically insignificant.

'I would rather focus on large cap, small cap, U.S. and international funds,' Fredman says. 'Over the longer term, there isn't that much difference between the returns on growth versus value funds. But you can see some big differences, for example, between emerging market small-cap funds and domestic stock funds.'

Other analysts suggest combining quantitative methods and trend analysis to determine when to shift among large-cap and small-cap growth and values funds. Carty, of New Millennium Advisors, suggests using your portfolio management software to compare the **expected rates** of **return** of the growth and value **funds** by capitalization in your client's portfolio. Then consider shifting assets into the **funds** with the highest **expected rates** of **return** and reducing positions in **funds** with lower **expected returns**. Typically, underperforming **funds** have higher **expected rates** of **return** compared with **funds** that have already racked up big gains. The reason is the tendency of a portfolio's performance to regress toward the mean. Over time, a portfolio that has outperformed the market averages tends to move back toward its historical average performance. By contrast, underperforming portfolios move up toward the averages.

Once you've calculated the expected returns on the funds, then optimize the portfolio to see which style of funds gives the best risk-**return** relationship. Using moving **averages** in conjunction with expected rates of return can help you get a fix on the style trends. Look at the fund's 39-week moving average and relative strength compared with the market as a confirmation that a fund with a particular investment style is coming back into favor. When a stock's price breaks above its moving average, it's a confirmation of a trend and a buy signal. When a stock's price breaks below the moving aver.age, it's a sell signal.

For example, the **expected rates** of **return** on small-cap growth **funds** may be attractive, so when a small-cap growth fund's price breaks above its 39-week moving average, it serves as a confirmation that this type of investment style may be coming back into

favor. 'The moving average signals a trend change of a fund so that you can buy or sell,' says Doug Fabian, president of Fabian Investment Resources in Huntington Beach, Calif. 'Along with other measures, it can help a financial planner decide how to reallocate assets in a portfolio.'

Fabian notes that many large-cap growth and value funds have been trading above their 39-week moving averages since September 1996, so it's a little late in the cycle to catch the uptrend. More recently, both small- and micro-cap growth or value **funds** have registered **expected rates** of **return** 100 basis points more that large-cap stock **funds**. Plus, the small funds broke above their moving averages in August and gained 40% by the end of October.

'Moving averages can help you make decisions about what type of fund to buy, but you can't get sucked into the performance game,' Fabian says. 'It's too late to make changes in your portfolio after a fund breaks above its moving average and performs well. It's best to buy or sell when the fund's NAV breaks the trend line when you are using it in combination with an expected rate of return.'

Some basic rules that can help you use moving averages to confirm that a shift in the style is about to occur:

If the moving average flattens out following a previous decline or is advancing, and the price of the stock penetrates the average line on the upside, it's a major buy signal.

If the price falls below the moving average price while the average line is still rising, this also is considered a buy sign.

If a fund price is above the moving average line and has declined toward that line but fails to go through it and starts to turn up again, this is a buy sign.

If the moving average line flattens out following a previous rise, or is declining and the price of the stock penetrates that line on the downside, it's a major sell signal.

If the stock fund rises above the moving average while the average line is falling, it's a sell signal.

If the stock fund price is below the moving average and is advancing toward that line but fails to break above the line and turns down again, it's a sell signal.

If the stock fund price advances too fast above an advancing moving average line, there is likely to be a move back toward the trend line.

Relative strength also is a popular and widely used trend indicator that works well in conjunction with a moving average. Relative strength is simply a price or percentage change ratio of a mutual fund's price divided by, for example, the S&P 500.

When you plot the relative strength line, you can compare mutual funds or mutual fund indexes and see which funds are performing best relative to the market. If a fund or fund group shows the best performance relative to the market, it may be performing best under the current economic climate.

Relative strength leads the change in a moving average. So it's a strong buy signal if the relative strength line improves over time and some weeks later, the price of a fund or index breaks its moving average. Stock market technicians say that when analyzing relative strength, you should look for the following:

A trend reversal, which is signaled if the relative strength of, say, a mutual fund index to the market and the index price are both rising, but relative strength starts to decline. That trend reversal is confirmed if the index price or moving average line later declines.

Price strength, which occurs if prices are trending down and relative strength starts to improve, confirmed by moving average or index performance.

Cases in down markets when both the mutual fund and the stock market are in steep decline. As a result, you could see one group of funds showing stronger relative strength to the market than others. The fund is still losing money, though much less than other funds.

Making fund style investment decisions based on relative strength and moving averages is not a surefire way to profit in the stock market. However, if there are positive trends coupled with favorable economic and attractive expected rates of returns, you have a benchmark to help with asset-allocation decisions. FP

CT *PC6282000 Investment Advisers; PC6231100 Securities Exchanges
CC *EC240 Marketing procedures
ICL *BANK Banking, Finance and Accounting; BUSN Any type of business
GT New: *CC1USA United States
Old: *CC1USA United States
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L9 ANSWER 21 OF 38 PROMT

AN 97:82010 PROMT
TI Time Diversification
SO Financial Planning, (Feb 1997) pp. 53.
ISSN: 0746-7915.
LA English
WC 1284
TX Many planners believe that time diversifies risk, but in reality the magnitude of losses increases even as the probability of loss decreases.

Harold Evensky

One of the truisms branded into the soul of most wealth managers and financial advisers is that time diversifies risk. The original formulation of this belief is attributed to Peter Bernstein, whose two basic premises were:

1. The longer the investment horizon, the larger the percentage of the portfolio that should be invested in stock and other high-return assets.

2. In the long run, an investor can be reasonably sure that a higher volatility portfolio will earn more than a lower volatility portfolio.

This belief has led wealth managers to preach to their clients that it is nonsense to say the market is risky. It is risky in the short term, but safe in the longer term. Prior to accepting the responsibility for managing a client's portfolio, we reach an agreement that the funds to be managed have at least a five-year rolling investment horizon. We are so emphatic about the necessity of the time horizon that we repeat it to our clients ad nauseam. 'Five years, five years, five years' has become our mantra, and time diversification is the basis for that mantra.

Faith in the salutary effect of time on risk was not created from naive optimism. Over time, it seems that above-**average returns** should offset below-**average returns**. Logically, the longer the time horizon, the more effective this dampening effect. Mathematically, for normally distributed returns, standard deviation declines with the square root of time. For example, if an equity fund has a 25% annual standard deviation, the expected standard deviation for a three-year cycle is 14.4.

Just Another Investment Myth?

As comforting as it is to believe that time diversification is working in the client's favor, the wealth manager needs to be aware that some observers argue that this is another investment myth. It might be tempting to ignore such objections; however, as the list of critics include Robert Merton and Paul Samuelson, a Nobel laureate, it is wise to at least understand why they argue that time diversification is specious.

In 1969, publishing independently but reaching the same conclusions, Merton and Samuelson demonstrated that, although the standard deviation of **average** annual **returns** may decrease over time, the standard deviation of cumulative returns increases. More recently, in the

May-June 1995 issue of Financial Analysts Journal, Zvi Bodi forcefully argued the same general conclusion.

In other words, although the probability of loss decreases over time, the magnitude of potential losses increases. As a result, an investor's asset allocation decision should be independent of the time horizon.

Mathematically, Merton, Samuelson and Bodi's conclusions are indisputable.
How, then, does a wealth manager incorporate time diversification into his or her own personal philosophy?

Recognize that the rejection of time diversification rests on various assumptions including the academic economist's favorite person, the 'rational' investor. One of the attributes of the rational investor is a utility function that translates into a desire to maximize terminal wealth (actually the log of terminal wealth). Real clients of a wealth manager seldom have such simple goals.

For most clients, their long-term goal is to earn a return adequate to maintain their standard of living. They have neither a reason nor a desire to take excess risks to earn returns in excess of their target.

Also, the investor is likely to be relatively indifferent about earning 25% or 50% of their required return. Any return significantly below the required is likely to decimate the client's standard of living.

Insofar as the significance of time diversification is concerned, the wealth manager's clients are far more sensitive to the probability of meeting their goals than the relative magnitude of a shortfall. For them, time diversification may work.

The following example and tables may be useful in demonstrating this concept to clients: Ms. Boone has $1,000 to save for retirement. She has a choice between two investments: a 'risk-free' investment with an expected return of 4% and a standard deviation of 0, or a 'risky' investment with an expected return of 12% and a standard deviation of 16. Table I compares the probability of terminal values for the risky and risk-free investments.

After 10 years, there is a 90% probability that the risky investment return will exceed the risk-free return by 13%. There is only a 5.7% probability that it will underperform the risk-free asset. After 20 years the probability of underperformance drops to 1.3%. For a 40-year time horizon (common in retirement planning), the probability of the risky investment underperforming the risk-free investment drops to 0.1%!

Asset Allocation And Time Diversification

Combining the benefits of asset allocation and the benefits of time diversification makes for an even stronger story in support of time diversification. Suppose that the client has the choice of investing in three portfolios, as illustrated in Table 2 - all bonds (Portfolio A), all stocks (Portfolio B) or a diversified portfolio (Portfolio C).

If we wish to evaluate the risk the investor faces with these different investment choices, we can compare the expected portfolio returns to Treasury bill returns. Table 3 shows the probability that the portfolio returns will exceed Treasury bill returns.

Where the client's goal has an intermediate time horizon (i.e., one requiring a specific terminal wealth value), Merton and Samuelson may be right. The following example illustrates such a case:

Mr. Brown has money set aside to fund his child's education in five years.
He is considering investing in an equity **fund** with an **expected** annual **rate** of **return** of 15% and a standard deviation of 30, but he is concerned with the high volatility of the fund.

Mr. Brown expressed his concerns to his financial adviser, who explained that, as the portfolio is designed to be held for five years, the expected annual rate of return for five years is still 15% but the standard deviation is only 13.4. The client is relieved, but is his sense of security warranted?

Unfortunately, the answer is no. Although the standard deviation of the annualized rate of return is reduced to 13.4, the volatility of the terminal value of the portfolio is not. If the client's **average return** is off by just one standard deviation (a very real possibility), his terminal wealth will be less than half the expected value. Chart 1 demonstrates how significantly the terminal wealth can diverge over time.

Deviation Of Terminal Wealth

Unlike money managers, wealth managers are concerned with the client, not just the portfolio. The experienced wealth manager makes investment recommendations based on real clients' goals and time horizons, not the intellectual construct of the rational investor. Ms. Boone is far better served investing long term in the 'risky' investment. In those rare instances when the risk-free investment outperforms the risky, the paltry risk-free return would be functionally worthless.

Consider the 40-year example. The risky alternative has a **mean return** expectation of $202,800 and a 90% expectation of exceeding $333,200 (that's still five times better than the risk-free investment). Those odds seem far superior for retirement planning to those of the safe investment.

The safe portfolio is only expected to outperform the risky portfolio 0.1% of the time. In the rare event that the safe investment outperforms the risky over a 40-year period, would it really affect the quality of Ms. Boone's life if her return for 40 years was $5,000 instead of $1,000? Not likely. FP

Harold Evensky is a principal at Evensky, Brown, Katz & Levitt in Coral Gables, Fla. This article was adapted from his book, Wealth Management, published by Irwin Professional Publishing and the IAFP.

CT *PC6020300 Portfolio & Funds Management; PC6282000 Investment Advisers
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AN 96:100393 PROMT
TI Fidelity Investments launches targeted bond funds; Three new funds with set maturity dates.
SO Business Wire, (15 Feb 1996) pp. 2151099.
LA English
WC 571
TX BOSTON--(BUSINESS WIRE)--Feb. 15, 1996--Fidelity Investments today unveiled three taxable bond funds designed for investors seeking a predictable range of return from a fixed-income investment and who are saving for a specific time-related goal. The funds, known as Fidelity Target Timeline Funds, mature on September 30, 1999, 2001 and 2003, respectively.

The Target Timeline Funds are unique because they are professionally managed mutual funds structured to provide a predictable range of return. Fidelity will manage the funds with the goal of providing a total **return** over their lifetimes that, on **average**, is within +/-0.50% per year of the yield quoted as of the date of purchase. The funds' "predictable return" is based on the investor keeping shares for the life of the fund and reinvesting all distributions.(a) There is no assurance that the funds' goal will be achieved or that the funds strategies will work as intended.

The Target Timeline Funds can be an appropriate investment alternative for people planning for a specific event (such as college tuition payments, retirement needs or a major purchase), or for those who are interested in diversifying their current portfolio. Additionally, these funds provide investors with some of the advantages of a professionally managed fund along with those of a single bond. They have the potential to provide higher returns than conservative money market funds whose objective is to maintain a stable $1.00 share price.

"The funds round out Fidelity's already extensive line of fixed-income mutual funds," said Neal Litvack, executive vice president of retail marketing, Fidelity Investments. "Given that not every type of financial instrument is right for everyone, the Target Timeline Funds could be appropriate for investors who have a specific time horizon or are seeking a complement to an already diversified portfolio."

Each **fund**'s portfolio will consist of U.S. dollar-denominated, investment-**grade** -- those rated BBB and higher by Standard & Poors -- securities including U.S. Government/agency issues, corporate debt and asset-backed securities. Additionally, in an effort to provide each fund's **predicted** range of **return**, securities will be selected whose **average** duration -- or sensitivity to interest **rates** -- approximates the amount of time remaining to the **fund**'s target date.

The funds are managed by Christine Thompson, who also manages Fidelity U.S. Bond Index Fund and Fidelity Intermediate Bond Fund. Thompson joined Fidelity in 1985. She worked as a senior bond analyst in fixed-income research until 1989. She was assigned to manage Fidelity U.S. Bond Index Fund in 1990 and Fidelity Intermediate Bond Fund in October 1995. She previously managed the bond portions of Fidelity Puritan Fund and Fidelity

Balanced Fund.

Fidelity Investments, with mutual fund assets of $354 billion as of December 31, 1995, is one of the country's leading providers of financial services.

Fidelity is the nation's largest mutual fund company and second largest discount brokerage company, with more than 80 Investor Centers around the U.S. Fidelity is also the nation's largest provider of 401(k) retirement savings plans to corporations, and the third largest provider of retirement plans to not-for-profit institutions. -0-

For more complete information on the Fidelity Target Timeline Funds or any
Fidelity fund, including charges and expenses, call 1-800-544-8888 for a free prospectus. Read it carefully before you invest or send money.

(a) Share price, yield and return will vary. A shareholder may have a gain
or loss when they sell their shares. Fidelity Distributors Corporation

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CT *PC6200000 Securities & Commodities Services
CC *EC36 Services Data
CO *Fidelity Investment
GT New: *CC1USA United States
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FEAT INDUSTRY; COMPANY

9/9/30 (Item 3 from file: 15)
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Tomorrow's best bets
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ABSTRACT: The Financial World Equity Fund Total %Return% %Predictor% identifies funds that will benefit the most from positive earnings announcements. Several funds are given a grade with the annual turnover.

TEXT: Picking mutual funds that are likely to perform best during the next two quarters is a lot harder than identifying those that did best in the last two.

We offer something that may help: The FW Equity Fund Total %Return% %Predictor%. The %Predictor% identifies funds that will benefit the most from positive earnings announcements.
We started by asking CDA Investment Technologies, a Rockville, Md., research firm, to compile a list of mutual funds that have assets of at least $25 million and have at least 90% of those assets in common stocks. Then we screened out funds with an annual portfolio turnover of 50% or more.

Setting limits on turnover and equity holdings eliminated funds for which the Predictor would not apply. The lower the rate of turnover, the more accurate the Predictor will be.

Then Chicago-based Zacks Investment Research %ranked% the remaining %funds% based on five criteria:

* The number of analysts who provided data for each company in the fund's portfolio.

* The extent to which analysts have revised their earnings estimates up or down during the last 60 days.

* The percentage change in the mean estimate.

* The extent to which the most accurate earnings-per-share forecast differs from the consensus EPS.

* The amount the last reported quarterly EPS figure deviated from the mean estimate.

This method, we believe, will allow the FW Predictor to forecast which funds own stocks that have not fully realized anticipated earnings upticks.

Based on the expected earnings predictions for the stocks within their portfolios, the %funds% were then %scored% and rated from A+ to D.

Those rated A+ are expected to perform better than the other funds in the table, while those rated D can be expected to lag behind the others.

Using this system, even a novice investor can take advantage of big upward moves in stock prices that stem from earnings reports. And the downside should be limited as a result of the diversification that funds provide.

You can go a step further and use this information to find funds that beat the market indexes. Says Larry Crowson, system manager at Zacks: "I've found Vanguard Index Value (rated B) to be a benchmark for the S&P 500." Like Vanguard, the majority of the index funds, which are designed to mirror the broad market averages, are rated B or B+. One can reasonably expect those %funds% with a better %rating% to outperform not only all other funds on the list but the market as well.

There's no guarantee these %funds% will outperform, but the odds are good.

And remember, unlike ads for mutual %funds% that tout past performance, we base our %rating% on expected %future% performance.

That's as good a crystal ball as you can get.

THIS IS THE FULL-TEXT.
COMPANY NAMES:
ABT Emerging Growth
Dodge & Cox Stock Fund
Benham Utility Income
Baird Blue Chip
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CLASSIFICATION CODES: 3400 (CN=Investment analysis); 9140 (CN=Statistical